Left:

Thomas E. Petry

Chairman and

Chief Executive

Officer

Right:

John W. Painter

President and

Chief Operating

Officer

Site: _____

ID #: _____

Break: _____

Other: _____

TO OUR SHAREHOLDERS:

"...Cash flow and resulting liquidity remain the central focus of the Company for the immediate future."

Thomas E. Petry

"On the operating front, the most critical task facing the Company... is in the area of automotive operations."

John H. Painter

For the past several years, Eagle-Picher has been an operating Company forced to deal with the large financial burden imposed by asbestos litigation. A strong operating performance is a necessary ingredient for the successful discharge of this liability. 1989 was a disappointing year. Although demand for many of the Company's products remained reasonably strong throughout the year, the level of operating income was below expectations. Profitability was adversely affected by start-up costs and delays of two major automotive programs, by manufacturing and engineering cost overruns at Transicoil Division, and by severely reduced automotive production schedules, particularly in the third quarter.

Revenues for the year totalled $729.9 million compared with $770.1 million in 1988, while operating income was $40.1 million compared with $69.8 million. From continuing operations, sales increased by approximately 6 percent while operating income declined by 19 percent. Overall, net income was $53.8 million or $5.04 per share of which $1.96 represented gains from the sale of three Divisions.

In November, 1988, the provision for the Company's asbestos liability was increased by $559.5 million. Because of applicable tax rules, payments made for the settlement of asbestos claims caused the Company to record only a minimal amount of Federal income tax expense in 1989. Similar tax treatment is likely for the foreseeable future.

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